

# Poverty

- Households Below Average Income (HBAI) statistics give an insight into the standard of living of the household population of England. HBAI assumes that all individuals in the household benefit equally from the combined income of the household.
- Individuals are said to be in **relative low income** if they live in a household with an income that is low relative to other households, as determined by whether the income is below 60 per cent of median income (the income earned by the household in the middle of the distribution in a given year). This can be determined before or after housing costs.
- Individuals are said to be in **absolute low income** if they live in a household with an income that is below a level that was the relative low income threshold in 2010/11 adjusted for inflation. This can be determined before or after housing costs.
- The percentage of people living in relative and absolute low income is lower in rural areas than in urban areas, but nevertheless many thousands of individuals living in rural areas are in households below average income.

*Percentage of households, working-age people, children and pensioners in relative and absolute low income, before and after housing costs, in 2014/15, by rural and urban areas in England*

Type of low income	Group	Rural		Urban	
		Before housing costs	After housing costs	Before housing costs	After housing costs
Relative	Households	15	16	17	23
	Working-age people	11	14	15	22
	Children	14	22	20	31
	Pensioners	17	13	16	14
Absolute	Households	14	15	16	22
	Working-age people	11	13	14	22
	Children	14	20	18	30
	Pensioners	15	13	14	13

## Relative low income in 2014/15

- The percentage of **households** in rural areas in relative low income was 15 per cent before housing costs and 16 per cent after housing costs. In comparison, the percentage of households in urban areas in relative low income was 17 per cent before housing costs and 23 per cent after housing costs.
- The percentage of **working-age people** in rural areas in relative low income was 11 per cent before housing costs and 14 per cent after housing costs. In comparison, the percentage of working-age people in urban areas in relative low income was 15 per cent before housing costs and 22 per cent after housing costs.
- The percentage of **children** in rural areas in relative low income was 14 per cent before housing costs, and 22 per cent after housing costs. In comparison, the percentage of children in urban areas in relative low income was 20 per cent before housing costs and 31 per cent after housing costs.
- The percentage of **pensioners** in rural areas in relative low income was 17 per cent before housing costs, and 13 per cent after housing costs. In comparison, the percentage of pensioners in urban areas in relative low income was 16 per cent before housing costs and 14 per cent after housing costs.

## Absolute low income in 2014/15

- The percentage of **households** in rural areas in absolute low income was 14 per cent before housing costs and 15 per cent after housing costs. The percentage of households in urban areas in absolute low income was 16 per cent before housing costs and 22 per cent after housing costs.
- The percentage of **working-age people** in rural areas in absolute low income was 11 per cent before housing costs and 13 per cent after housing costs. In comparison, the percentage of working-age people in urban areas in relative low income was 14 per cent before housing costs and 22 per cent after housing costs.
- The percentage of **children** in rural areas in absolute low income was 14 per cent before housing costs and 20 per cent after housing costs. In comparison, the percentage of children in urban areas in absolute low income was 18 per cent before housing costs and 30 per cent after housing costs.
- The percentage of **pensioners** in rural areas in absolute low income was 15 per cent before housing costs and 13 per cent after housing costs. In comparison, the percentage of pensioners in urban areas in absolute low income was 14 per cent before housing costs and 13 per cent after housing costs.

*Percentage of households, working-age people, children and pensioners in relative and absolute low income, before and after housing costs, in 2012/13, by rural and urban areas in England*

Type of low income	Group	Rural		Urban	
		Before housing costs	After housing costs	Before housing costs	After housing costs
Relative	Households	13	15	16	22
	Working-age people	10	15	15	23
	Children	9	16	19	30
	Pensioners	15	13	15	13
Absolute	Households	14	16	17	24
	Working-age people	11	16	16	25
	Children	11	18	21	34
	Pensioners	16	14	17	16

*Dashboard showing the change in the percentage of households, working-age people, children and pensioners, in relative and absolute low income, before and after housing costs, between 2012/13 and 2014/15, by rural and urban areas in England*

Type of low income	Group	Rural		Urban	
		Before housing costs	After housing costs	Before housing costs	After housing costs
Relative	Households	↑	↑	↑	↑
	Working-age people	↑	↓	—	↓
	Children	↑	↑	↑	↑
	Pensioners	↑	—	↑	↑
Absolute	Households	—	↓	↓	↓
	Working-age people	—	↓	↓	↓
	Children	↑	↑	↓	↓
	Pensioners	↓	↓	↓	↓

Key: the percentage in low income increased (↑), decreased (↓) or stayed the same (—).

This dashboard shows the direction of change over the last year and is provided to give an indication only and may not represent a clear improvement or deterioration. Indication of change is based on a ±1.0 percentage point threshold.

## Changes between 2012/13 and 2014/15

In rural areas:

- The percentage of children in relative and absolute low income increased.
- The percentage of households in relative low income increased.
- For households, working age people and pensioners, the percentage in absolute low income after housing costs had fallen.

In urban areas:

- The percentages of households, children and pensioners in relative low income increased
- The percentages in absolute low income had fallen for all groups.

### Technical note

This report presents figures on the percentage living in relative and absolute low income for households overall, and separately for working-age adults, children and pensioners. These statistics are one of the measures used to assess changes to living standards by examining low income, income inequality and poverty. Figures are presented as *before* and *after* housing costs.

The Department for Work and Pensions (DWP) reports that **before housing costs**<sup>1</sup> measures allow an assessment of the relative standard of living of those individuals who were actually benefiting from a better quality of housing by paying more for better accommodation, and income growth over time incorporates improvements in living standards where higher costs reflected improvements in the quality of housing.

**After housing costs**<sup>1</sup> measures allow an assessment of living standards of individuals whose housing costs are high relative to the quality of their accommodation, and income growth over time may also overstate improvements in living standards for low-income groups, as a rise in housing benefit to offset higher rents (for a given quality of accommodation) would be counted as an income rise.

Both before and after housing costs measures can be used to examine relative and absolute low income for **households**.

DWP report that the preferred measure to examine relative and absolute low income for the **working-age population** (those aged between 16 and 64) is before housing costs. This is because after housing costs measures can underestimate the true living standard of families who choose to spend more on housing to attain a higher standard of accommodation.

DWP report that the preferred measure of low income for **children** is based on incomes measured before housing costs, as after housing costs measures can underestimate the true living standard of families who choose to spend more on housing to attain a higher standard of accommodation.

DWP report that the preferred measure of low income for **pensioners** is based on incomes measured after housing costs, as a significant percentage of pensioners own their own home. The figures for both urban and rural areas show that the percentage of pensioners in relative or absolute low income was lower after housing costs, than before housing costs.

These rural statistics are based on **relative low income** and **absolute low income**<sup>2</sup>. DWP also report on measures of 'low income and material deprivation' and 'persistent poverty'.

<sup>1</sup> See Note (a) for explanation of what is included in *before* and *after* housing costs.

<sup>2</sup> See Note (b) for explanation of *relative* low income and *absolute* low income.

**Source:** Department for Work and Pensions (DWP), bespoke data request.

**Notes:**

**(a) HBAI statistics – background information**

Households Below Average Income (HBAI) uses net disposable weekly household income, after adjusting for the household size and composition, as an assessment for material living standards - the level of consumption of goods and services that people could attain given the net income of the household in which they live. In order to allow comparisons of the living standards of different types of households, income is adjusted to take into account variations in the size and composition of the households in a process known as equivalisation. The unit of analysis is the individual.

Housing costs are made up of: rent (gross of housing benefit); water rates, community water charges and council water charges; mortgage interest payments (net of tax relief); structural insurance premiums (for owner occupiers); and ground rent and service charges.

Further information on HBAI statistics can be found at: <https://www.gov.uk/government/collections/households-below-average-income-hbai-2>

**(b) HBAI statistics – definitions of relative and absolute low income**

**Relative low income** sets the threshold as a percentage of the average income, so it moves each year as average income moves. It is used to measure the number and percentage of individuals who have incomes that are a certain percentage below the average.

The percentage of individuals in *relative* low income will increase if the average income:

- stays the same or rises and, relative to this, individuals on lowest incomes see their income fall, or rise to a lesser extent
- falls and individuals with the lowest incomes see their income fall more than the average income

The percentage of individuals in *relative* low income will decrease if the average income:

- stays the same or rises, while those with the lowest incomes see their income rise more than the average income
- falls and, relative to this, individuals with the lowest incomes see their income rise, fall to a lesser extent, or show no change

**Absolute low income** sets the low income line in a given year, here in 2010/11 then adjusts it each year with inflation as measured by variants of the Retail Prices Index (RPI). This measures the percentage of individuals who are below a certain standard of living in the UK (as measured by income).

The percentage of individuals in *absolute* low income will:

- increase if individuals with the lowest incomes see their income fall or rise less than inflation
- decrease if individuals with the lowest incomes see their incomes rise more than inflation

HBAI uses variants of the RPI to adjust for inflation to look at how incomes are changing over real time in real terms. In accordance with the Statistics and Registration Service Act 2007, the RPI and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found on the UK Statistics Authority website.

**(c) The Child Poverty Act 2010, Social Mobility and Child Poverty Commission**

The relative low income target in the Child Poverty Act 2010 (<http://www.legislation.gov.uk/ukpga/2010/9/section/3>) is that less than 10% of children who live in qualifying households live in households that fall within the relevant income group. For the purposes of this analysis, a household falls within the relevant income group – in relation to a financial year – if its equivalised net income for the financial year is less than 60% of median equivalised net household income for the financial year.

**(d) Rounding**

In the tables, figures are rounded to the nearest 1.0 per cent whereas the dashboard shows change based on a  $\pm 1.0$  percentage point threshold. Increases or decreases in figures between years as noted in the tables and dashboard may therefore not match and these changes may not represent a clear improvement or deterioration.